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The economics of double-stack trains

April 1985

RAILWAY AGE

...for the new age of railways

GOODBYE TO ALL THIS?

AMTRAK UNDER SIEGE

RAILWAY AGE

...for the new age of railways

April 1985

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Inside

The truth about that "Golden Age"

LUTHER S. MILLER

At a time when much of American industry is scaling new peaks of profitability, the railroads are still scrambling in the foothills. It is comfortable territory, compared with the fiscal swamps of the '70s; but it is a long way from the dizzying heights that the railroads are depicted as occupying by those who want to see them slapped back into the chains of federal regulation.

Some of the richest reregulation rhetoric has come from National Coal Association President Carl E. Bagge. In Mr. Bagge's view, the Staggers Rail Act of 1980 "has been turned away from what Congress intended and has been distorted to recreate the 19th century's Golden Age of Railroading and its monopoly conditions." One result of this perversion of Congressional intent, says Mr. Bagge, has been railroad rates that are "much higher than costs plus reasonable profit."

As Mr. Bagge well knows, what Congress intended with passage of the Staggers Act (and said so explicitly) was to restore the railroads to revenue adequacy. The ICC subsequently determined that a railroad would be revenue adequate when its return on net investment equaled its cost of capital. On this basis, a fair return last year was judged to be around 15%.

The ICC reports periodically on how close the railroads have come to that benchmark. The latest report, covering the 12 months ended last Sept. 30, shows that the railroads collectively earned a return of 5.78%.

Boston & Maine's 16.83% return did exceed the "fair" threshold, but the ICC footnotes that as a fluke deriving from the fact that Guilford Industries' purchase price for the common stock of B&M "was considerably less than the railroad's net equity, necessitating a large write-down of railroad assets." Otherwise, this was the picture:

Southern District:
Florida East Coast 0%
Illinois Central Gulf 2.46%
Seaboard System 7.13%
Southern 5.32%

Western District:
Santa Fe 4.50%
Burlington Northern 9.50%
Chicago & North Western 6.04%
Milwaukee Road 1.70%
Denver & Rio Grande Western 4.00%
Duluth, Missabe & Iron Range 0%
Kansas City Southern 7.51%
Missouri-Kansas-Texas 1.66%
St. Louis Southwestern 2.13%
Soo Line 3.04%
Southern Pacific 1.58%
Union Pacific 4.36%
Western Pacific 0%

Eastern District:
Baltimore & Ohio 6.03%
Bessemer & Lake Erie 5.28%
Chesapeake & Ohio 3.62%
Conrail 9.60%
Elgin, Joliet & Eastern 4.06%
Grand Trunk Western 0.10%
Norfolk & Western 7.04%
Pittsburgh & Lake Erie 0%

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Market Outlook

Equipment

Conrail: Has adopted a 1985 capital budget of $557 million (about $30 million more than actual 1984 outlays). The new program includes $128 million for equipment (locomotives, freight cars and motor vehicles); $135 million for improvements (communications and signals, workshops and machinery, structures, freight terminals and computers); and $294 million for track (installation of 418 miles of cwr, 2.1 million crossties, and 632 switches, plus surfacing of 6,220 pass miles of track). In addition, Conrail will spend nearly $7 million for new equipment for Pennsylvania Truck Lines, a subsidiary that operates the railroad's TrailVan intermodal terminals.

Dow Chemical: Leased 200 5,800-cu-ft capacity covered hopper cars from Pullman Leasing. Built by Richmond Tank Car and equipped with Youngstown Steel Door pneumatic outlet gates, the cars are designed to handle plastic resins.

Massachusetts Bay Transportation Authority: Ordered an additional four rapid transit cars from UTDC (USA) Inc. at a cost of $1.030 million each. This brings MBTA's total order to 58 cars valued at $56 million (U.S.). They will be used on Boston's Red Line.

Public Service Company of Colorado: Placed an order with Bethlehem Steel's Freight Car Division at Johnstown, Pa., for "more than 130" Coalporter gondola cars. Work on the order will begin late in the second quarter. It is the first for the division since it completed an order in January for 135 Coalporters, mostly for the Grand River Dam Authority of Oklahoma.

Saudi Railways Organization: The Gregg Co. of Hackensack, N.J., will begin delivery of eight double-track cabooses in April. They are being built in the U.S.

Union Pacific: Ordered 100 100-ton-capacity covered hoppers, for cement service, from Greenville Steel Car at a cost of $3.5 million.

Revenue freight carloadings

Commodity	Mar. 9 week	Mar. 2 week	Feb. 23 week	Feb. 16 week
Grain	22,394	24,253	21,957	24,275
Other farm products	3,266	4,057	3,564	3,643
Metallic ores	12,298	12,155	11,848	12,232
Coal	119,853	115,594	121,431	98,011
Crushed stone, gravel and sand	10,868	10,888	9,867	8,288
Nonmetallic minerals	11,837	12,467	10,133	11,434
Grain mill products	10,797	10,886	10,534	11,303
Food and kindred products	11,332	11,538	10,791	11,102
Primary forest products	12,939	12,486	13,544	12,540
Lumber and wood products except furniture	8,759	7,469	6,969	7,088
Pulp, paper and allied products	14,913	15,560	14,885	14,787
Chemicals and allied products	25,784	26,186	24,721	24,593
Petroleum products	6,486	6,507	6,446	6,834
Stone, clay and glass products	10,529	10,338	10,076	8,852
Coke	4,644	5,272	4,882	4,891
Metals and products	9,910	10,484	9,967	8,391
Motor vehicles and equipment	22,248	22,616	22,421	20,449
Waste and scrap materials	10,085	8,865	9,213	8,712
Forwarder and shipper assn. traffic	6,898	7,303	6,652	6,891
All other carloads	59,659	61,626	57,986	65,592
LCL traffic	175	177	153	134
Total Cars Loaded	386,476	384,949	364,332	366,547
% change from previous year	(5.8)	1.0	(2.1)	(10.7)

Estimated revenues (in millions)	1985	1984	% change
10 weeks	166.4	175.5	(5.8)

Piggyback loadings

	Mar. 2 week	Feb. 23 week	Feb. 16 week	Feb. 9 week	Feb. 2 week
Trailers/containers*	91,822	85,120	85,157	84,484	86,337

Cumulative total, 9 weeks		% change from 1984
Trailers/containers	731,637	(4.2)

*The AAR has stopped reporting the weekly flatcar loadings figures. The increased use of longer trailers has made the figures increasingly less comparable to the past since many flatcars now carry only one trailer instead of two.

Rail freight traffic trends

Billion ton miles (Estimated)

Source: Association of American Railroads

Freight cars

	Delivered Feb. 1985	Delivered 2 months 1985	Delivered 2 months 1984	Ordered Feb. 1985	Ordered 2 months 1985	Ordered 2 months 1984	On order and undelivered March 1, 1985	Average backlog 1985	Average backlog 1984
Built new by carbuilders	830	1,717	943	650	1,653	4,259	3,864	3,574	6,599
Built new in RR shops	0	336	0	0	0	0	70	70	0
Built new—total	830	2,053	943	650	1,653	4,259	3,934	4,644	6,599
Rebuilt	0	0	0	0	0	0	0	0	0
TOTAL	830	2,053	943	650	1,653	4,259	3,934	4,644	6,599
Locomotives (new and rebuilt)	26	40	42	N.A.	N.A.	N.A.	237	244	83

Source: Transportation Div., AAR and American Railway Car Institute

Lines on Labor

BN: Charting a new course takes time

A giant corporation is a lot like a supertanker. It takes a long time to respond to the helm. It takes a long time, a long distance, to change course. Burlington Northern Railroad's helmsman, Chairman and Chief Executive Officer Walter A. Drexel, has been wanting to change course, and he has, in a physical sense. The executive headquarters of BN have been moved to Texas, the operating headquarters have been moved to Kansas, leaving a much-lesser presence in the old headquarters city, St. Paul. But Walter Drexel has also been wanting to change course in what's described as "corporate culture." And on that one, BN is still working to earn its marks, by its own admission.

GUS WELTY

"Corporate culture" is one of those buzz-phrases that the average working-stiff may not quite grasp. *Railway Age* called it "style" (*RA*, April 1984, p. 18) in commenting on BN's "culture" employee survey. Drexel describes it as "simply a term to describe the overall way things get done within the company." He talks of a decentralized, participative organization. Management in the new corporate culture, he says, "means behaving more like leaders than like bosses. This means we use persuasion as the primary tool for getting employees to do their best."

Corporate culture, he emphasized in a recent issue of BN's employee publication, "relies on the concept of 'mutuality of interest' as the foundation for its success. The concept means that we recognize that employees will only do their best to achieve the company's objectives when they firmly believe that simultaneously they will be better off. Job security, improved compensation and benefits, and better morale will only occur when all of us are pulling together to provide our customers more reliable service at a lower cost than our competition."

You can't argue with that. Over the past many years, untold numbers of "Lines on Labor" columns have had the same theme. And, of course, "We're all in this together" has come to rank second only to "Employees are our most important asset" in any listing of business-management cliches.

Credit BN for asking employees in the first place, and then for making a response. Credit BN for going public with its recital of employee-suggested problems, and with its outline of how those problems are being addressed.

Old terms die hard

But, the supertanker syndrome does live. Survey results were in a long time ago and now, more than a year later, the story in *BN News* tells about what's being done. And people have suffered, emotionally if not financially, with transfers, with notification that when they leave their jobs will be abolished, with placement on "surplus" status. And, despite the emphasis on leadership as opposed to boss-ism, old terms apparently die hard: The story uses the words supervisor and subordinate in describing relationships between those who give the orders and those who take them. This, by the way, is not meant to imply that a company should go the weird route where everybody on the payroll is an associate with business cards that read "Associate-Track Laborer." It is meant to say that, euphemisms aside, the company that works best will be the company that emphasizes personal relationships even as it maintains the proper and necessary discipline.

People who work for BN have gone through a lot of changes, starting 15 years ago with the merger that created BN. And in no way is change bad, per se. For BN, change has meant, among other things, increased profit. For BN, change has meant, among other things, the prospect that employment has now been stabilized, moving with the economy but without the wrenching changes made by a management that saw a company as over-staffed.

Now, BN says it's doing, or going to do, a lot of things in terms of making this "corporate culture" work. BN is saying a lot about communicating. BN is saying that the "culture" will pass through.

BN's employees will be watching. So will other railroads. And, no matter what BN's top management may think, BN is a railroad, with whatever baggage that word may carry in terms of style or, if you prefer, culture.

What that means is simply that BN, any major railroad, is a supertanker. The difference is, maybe, that the tanker, a machine, eventually responds. But a railroad is people, first and foremost. And people can be hard to program.

Class 1 railroad employment

Employee Group	No. of employees, mid-month count February 1985	Percent of change February 1985 from February 1984	Percent of change February 1985 from January 1985
Total—all employees	303,690	d 3.79	d .33
Executives, officials and staff assistants	13,744	2.13	1.64
Professional and administrative	58,596	d 8.20	d .58
Maintenance of way and structures	55,362	d 3.21	d 2.45
Maintenance of equipment and stores	58,879	d 5.82	d .22
Transportation (other than train, and engine)	20,612	1.06	d 1.72
Transportation (train and engine)	96,497	d 1.78	1.02

Source: ICC

A RAILWAY AGE SERVICE PAGE

REVENUES AND EXPENSES OF RAILWAYS

Fourth quarter figures of calendar year 1984

(Dollar figures are stated in thousands, i.e., with last three digits omitted)

		Operating revenues				Operating expenses								Ratio		Income after fixed charges		1984 Net Ry. operating income	Dist. income	
						Way & structures			Equipment											
		Freight	Other	Total 1984	Total 1983	Total 1984	Total 1983	1984 Deprec.	Total 1984	Total 1983	1984 Deprec.	Total 1984	Total 1983	1984	1983	1984	1983		1984	1983
Amtrak	3 mos.	—	181,107	181,107	175,955	58,448	95,391	20,501	100,026	85,303	20,245	398,610	398,228	220.09	226.32	(212,291)	(217,299)	(217,503)	(212,291)	(217,299)
	12 mos.	—	731,736	731,736	686,304	211,794	208,731	61,393	385,517	349,504	80,519	1,547,301	1,429,523	211.46	208.59	(791,081)	(797,142)	(815,565)	(791,081)	(797,142)
Atchison, Topeka & Santa Fe	3 mos.	545,606	11,933	557,491	544,795	86,277	88,009	14,734	109,970	124,075	25,469	512,129	469,695	91.87	86.18	45,362	57,366	90,824	39,513	52,976
	12 mos.	2,269,291	48,213	2,308,446	2,091,148	343,075	333,941	57,239	538,215	487,294	94,909	2,350,077	1,901,849	93.96	83.91	220,369	199,019	142,833	126,369	92,057
Baltimore & Ohio	3 mos.	233,278	9,762	243,040	257,469	47,744	52,572	9,922	63,266	59,179	7,476	244,225	246,751	100.48	95.84	2,116	15,451	6,410	5,974	12,726
	12 mos.	1,009,929	39,976	1,050,905	918,581	184,604	217,831	39,537	238,295	218,961	29,310	994,453	935,865	94.62	101.89	53,921	(3,597)	89,825	43,656	180
Delaware & Lake Erie	3 mos.	12,454	4,094	16,548	15,799	4,144	3,068	1,245	617	1,944	1,564	13,777	12,995	82.58	82.75	2,218	2,622	2,585	2,100	1,987
	12 mos.	50,034	16,799	66,487	64,167	15,439	12,757	5,427	8,205	7,196	6,714	56,048	52,667	84.28	82.08	10,764	9,651	9,794	10,468	8,575
Boston & Maine	3 mos	28,406	1,339	29,745	—	4,971	—	226	9,287	—	46	30,428	—	102.29	—	(158)	—	(909)	(158)	—
	12 mos.	119,103	5,950	125,053	—	18,265	—	1,414	37,287	—	208	118,947	—	95.11	—	7,856	—	6,403	7,856	—
Burlington Northern	3 mos.	1,099,886	21,197	1,116,113	1,041,089	171,799	171,469	40,189	192,835	199,736	15,469	880,977	392,033	78.39	84.73	235,443	164,886	197,335	129,833	117,700
	12 mos.	4,393,464	80,777	4,440,241	4,218,050	628,460	787,168	160,240	777,873	794,916	61,865	3,460,188	3,479,711	78.67	84.58	891,219	680,109	647,180	501,281	380,947
Chesapeake & Ohio	3 mos.	196,584	7,484	204,068	243,307	33,134	42,195	7,446	59,492	53,842	3,850	212,083	222,520	103.93	91.45	445	34,196	(8,250)	2,214	29,042
	12 mos.	1,012,690	37,784	1,050,474	949,237	140,969	192,645	31,641	243,647	209,088	14,720	908,906	876,912	86.52	92.38	204,446	71,823	79,453	142,346	48,926
Chicago & North Western	3 mos.	190,594	24,985	215,579	231,782	34,019	46,327	9,087	50,256	51,442	4,139	196,675	209,745	91.19	90.50	(11,809)	(1,218)	7,758	(8,955)	(1,218)
	12 mos.	776,538	105,036	882,042	891,575	150,646	176,898	34,038	218,446	220,176	17,440	813,999	862,767	92.28	96.80	23,756	2,491	69,102	30,594	2,491
Chicago, Milwaukee, St. Paul & Pac.	3 mos.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	12 mos.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Conrail	3 mos.	704,873	27,679	732,552	760,710	132,969	154,796	21,845	160,737	197,840	40,715	738,751	746,210	94.79	98.09	60,559	68,211	45,864	36,529	67,314
	12 mos.	2,850,694	101,580	2,952,274	3,055,210	488,960	662,964	89,594	760,168	796,041	160,938	2,979,487	2,994,319	95.39	97.97	389,175	434,672	414,978	389,175	137,659
Delaware & Hudson	3 mos.	28,367	610	28,977	27,328	5,465	4,938	236	9,425	8,714	159	32,767	29,440	113.07	107.72	(3,979)	(4,406)	(3,782)	(3,979)	(4,406)
	12 mos.	117,428	5,774	123,202	108,354	21,462	19,974	860	38,045	32,337	738	128,521	114,295	104.31	105.48	(6,776)	(16,317)	(9,206)	(6,776)	(16,317)
Denver & Rio Grande Western	3 mos.	83,913	1,477	85,390	80,978	13,962	13,486	3,441	17,499	15,979	3,540	79,118	77,818	92.75	97.01	6,199	1,284	5,971	3,748	764
	12 mos.	302,792	5,611	308,403	303,491	53,369	53,407	13,248	62,944	63,168	12,960	324,686	324,792	99.62	99.51	21,673	12,884	32,531	20,162	17,445
Duluth, Missabe & Iron Range	3 mos.	14,202	698	14,900	21,873	7,825	7,970	1,562	4,564	2,358	44	18,134	19,244	121.70	87.98	2,833	5,300	(1,686)	2,597	3,162
	12 mos.	78,116	3,609	79,725	79,140	31,627	25,229	6,266	13,121	8,867	2,122	79,740	66,501	100.01	85.10	12,562	15,679	(3,819)	8,283	9,047
Elgin, Joliet & Eastern	3 mos.	13,714	5,459	19,173	20,080	5,599	5,058	997	3,438	3,791	1,369	15,057	16,108	89.09	80.90	349	4,484	(824)	(716)	3,597
	12 mos.	57,995	23,581	80,576	80,645	17,397	19,794	3,999	16,544	11,884	7,999	69,961	61,454	81.38	68.80	(2,021)	12,919	1,668	7,888	8,151
Florida East Coast	3 mos.	32,097	735	32,832	29,762	5,111	6,190	1,244	4,996	4,993	947	24,030	24,030	73.16	80.74	9,712	10,914	5,015	5,915	7,906
	12 mos.	119,261	2,218	121,479	104,776	17,849	21,859	4,630	19,931	16,907	3,767	89,560	85,074	73.72	81.19	46,006	67,936	13,779	36,966	39,575

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